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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION
OF TUCSON ELECTRIC POWER
COMPANY FOR THE ESTABLISHMENT OF
JUST AND REASONABLE RATES AND
CHARGES DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON THE
FAIR VALUE OF ITS OPERATIONS
THROUGHOUT THE STATE OF ARIZONA.

Docket No. E-01933A-12-0291

**NOTICE OF FILING DIRECT
TESTIMONY OF JEFFREY
SCHLEGEL ON BEHALF OF
SOUTHWEST ENERGY EFFICIENCY
PROJECT**

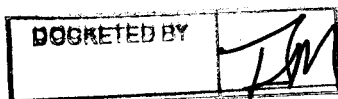
Southwest Energy Efficiency Project ("SWEEP"), through its undersigned counsel,
hereby provides notice that it has this day filed the written direct testimony of Jeff
Schlegel related to cost of service and rate design.

RESPECTFULLY SUBMITTED this 11th day of January, 2013.

ARIZONA CENTER FOR LAW IN
THE PUBLIC INTEREST

Arizona Corporation Commission
DOCKETED

JAN 11 2013



By

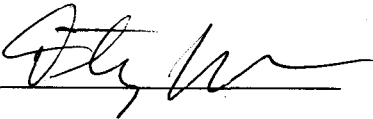
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Project

1 ORIGINAL and 13 COPIES of
2 the foregoing filed this 11th day
of January, 2013, with:

3 Docketing Supervisor
Docket Control
4 Arizona Corporation Commission
1200 W. Washington
5 Phoenix, AZ 85007

6 COPIES of the foregoing
Electronically mailed this
7 11th day of January, 2013 to:

8 All Parties of Record

9 
10

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE OF
ITS OPERATIONS THROUGHOUT THE STATE
OF ARIZONA.

Docket No. E-01933A-12-0291

Rate Design Direct Testimony of

Jeff Schlegel

Southwest Energy Efficiency Project (SWEEP)

January 11, 2013

Rate Design Testimony of Jeff Schlegel, SWEEP
Docket No. E-01933A-12-0291

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Introduction

Q. Please state your name and business address.

A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson, Arizona 85704-3224.

Q. For whom are you testifying?

A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP).

Q. Have you filed direct testimony in this docket previously?

A. Yes. I filed direct testimony on behalf of SWEEP on December 21, 2012.

Q. What is the purpose of your rate design direct testimony?

A. In my rate design testimony, I will address three issues:

1. Increasing the basic service charge is not in the interest of customers.
2. Increasing participation in Tucson Electric Power Company's time of use rates.
3. Time of use (TOU) rates for electric vehicles and associated charges should not discourage the adoption of electric vehicles.

Increasing the Basic Service Charge

Q. What is Tucson Electric Power's (TEP's) current basic service charge ("basic charge" or "monthly charge") for residential customers?

A. TEP's current basic service charge is between \$7.00 and \$8.00 per month.¹

Q. Does TEP propose to increase this charge in its rate case application?

A. Yes. TEP proposes to increase this charge by \$5.00 to \$7.00 a month, with resulting basic service charges of \$12.00 per month for standard residential customers and \$15.00 for residential time of use customers.² These are significant increases in monthly charges for customers.

Q. Is increasing the basic service charge, for example, as an alternative to full revenue per customer decoupling or lost revenue recovery mechanisms, in the interest of customers?

¹ Tucson Electric Power, Direct Testimony of Craig A. Jones, In the Matter of the Application of Tucson Electric Power Company for Approval of its 2011-2012 Energy Efficiency Implementation Plan, Docket No. E-01933A-11-0055, June 15, 2012, at page 32.

² Ibid., at page 33.

1 A. No. SWEEP does not support increasing the basic service charge as a mechanism to recover
2 additional fixed costs. Increasing the basic service charge mutes the price signal to customers
3 by reducing the amount of utility bill cost savings that customers experience when they
4 conserve energy or become more energy efficient. A higher basic service charge reduces the
5 customer incentive to engage in energy efficiency opportunities because customers can affect
6 only a smaller portion of their total utility bills.

7
8 SWEEP thinks it is important for customers to be able to maximize savings from energy
9 efficiency, and a higher monthly service charge limits that ability. Monthly basic service
10 charges also have a tendency to fall disproportionately on smaller customers – who can often
11 least afford them. Higher basic service charges are not in the public interest and are not in the
12 interest of customers.

13 14 15 **Increasing Participation in and Effectiveness of Time of Use Rates**

16
17 Q. How many customers participate in TEP's time of use (TOU) rates?

18
19 A. TEP reports a total of 10,000 TOU customers at the end of its current test year, with an
20 increase of 2,000 new customers since the company's last rate case.³ Thus, about 3% of
21 TEP's residential customer base participates in TOU rates.

22
23 Q. How does this participation level compare with other Arizona utilities?

24
25 A. TEP's TOU participation level is significantly lower than that of the Arizona Public Service
26 Company (APS) and the Salt River Project (SRP). In its 2011 rate case application, APS
27 reported that it had "the highest penetration of TOU in the United States with over 50% of
28 [their] customers on one of [their] TOU rates."⁴ Likewise, SRP reported more than 230,000
29 customers participating in its TOU and EZ-3 prices plans during its 2012 Fiscal Year.^{5,6}

30
31 Q. Will TEP's proposal to eliminate and consolidate TOU rates drive customer participation?

32
33 A. TEP believes that it will. According to TEP Witness Craig Jones, an "unwieldy number" of
34 TOU variations has presented customers with "the daunting task of trudging through a
35 myriad of choices,"⁷ and TEP's proposal will help to mitigate this confusion.

36

³ Ibid., at page 23.

⁴ Arizona Public Service Company, Direct Testimony of Daniel L. Froetscher, In the matter of the application of Arizona Public Service Company for a hearing to determine the fair value of the utility property of the company for ratemaking purposes, to fix a just and reasonable rate of return thereon, to approve rate schedules designed to develop such return. , E-01345A-11-0224, June 1, 2011, at page 15.

⁵ Salt River Project, 2012 Energy Efficiency Report,
http://www.srpnet.com/about/financial/pdfx/EEReport2012_final.pdf.

⁶ SRP reported a total of 956,756 electric customers during its 2012 Fiscal Year.

⁷ Tucson Electric Power, Direct Testimony of Craig A. Jones, In the Matter of the Application of Tucson Electric Power Company for Approval of its 2011-2012 Energy Efficiency Implementation Plan, Docket No. E-01933A-11-0055, June 15, 2012, at page 41.

SWEEP recommends that TEP also engage in a robust customer education and outreach effort to inform customers of their options and the potential savings benefits of subscribing to TOU options. Similar efforts have been successful for APS and SRP.

Q. Does SWEEP have any concerns about TEP's TOU proposal?

A. Yes. SWEEP is concerned that TEP's proposed summer peak period of 10 a.m. to 9 p.m. is too long and will dissuade customers from participating in TOU rate options. For comparison, peak periods for APS and SRP's residential TOU rates are shown below:

Utility	Rate Plan	Period*	On-Peak Hours
SRP	EZ-3 (E-21)	Year Round	3-6 p.m., Monday through Friday
SRP	EZ-3 Pilot (E25)	Year Round	2-5 p.m., Monday through Friday
SRP	EZ-3 Pilot (E22)	Year Round	4-7 p.m., Monday through Friday
SRP	E26	May - October	1-8 p.m., Monday through Friday
SRP	E26	November - April	5-9 a.m. and 5-9 p.m., Monday through Friday
APS	ET2	Year Round	12-7 p.m., Monday through Friday
APS	ET-SP	June-August	12-3 p.m. (on peak), Monday through Friday; 3-6 p.m. (super peak), Monday through Friday; 6-7 p.m. (on peak), Monday through Friday
APS	ET-SP	May, September, October	12-7 p.m., Monday through Friday
APS	ET-SP	November - April	12-7 p.m., Monday through Friday
APS	ECT-2	May-October	12-7 p.m., Monday through Friday
APS	ECT-2	November-April	12-7 p.m., Monday through Friday

*Off Peak holidays not listed

Q. Should TEP modify its TOU rate proposals and the on-peak time periods?

A. Yes. In order to be effective at achieving the primary objective of TOU rates, which is to shift load from high peak periods to shoulder or off-peak periods, TEP needs to find the right balance between the system characteristics and customer interests and preferences. A TOU rate that has too long of an on-peak period will not be effective in customers shifting load to shoulder or off-peak periods. Customers need to see some benefit in the TOU rate and a reasonable opportunity to make it work for them, considering realistic schedules for customers. A TOU rate with a summer peak period of 10 a.m. to 9 p.m. simply is too long to work for many customers, and compares poorly to other TOU rates in Arizona. SWEEP recommends that TEP should shorten the TOU on-peak period by having it cover fewer hours in the evening, and no later than 7:00 p.m.

Time of Use Rates for Electric Vehicles

Q. Does SWEEP have any concerns regarding the new TOU rates to support electric vehicles?

A. Yes. Language in the TEP rate case states that “For a Customer taking service under a TEP Time-of-Use (“TOU”) rate schedule, TEP may charge a fee based on the incremental cost of a TOU meter versus a non-TOU meter.” Currently, per TEP’s website, those customers that choose a TOU rate have a TOU meter installed for no charge. SWEEP is concerned that the TEP proposal in the rate case could add significant additional costs to customers signing up for TOU rates and thus discourage adoption of electric vehicles, and also make this TOU rate less effective as meeting its objective. Additional meter costs should not be incurred by individual customers. Also, additional costs are already incurred by TOU customers through higher peak prices and higher service charges.

SWEEP opposes any rate or measure requiring electric vehicle owners to install and pay for an additional utility meter, which would add a barrier to public acceptance of electric vehicles.

Conclusion

Q. Does this conclude your rate design testimony?

A. Yes.